

**MINUTES OF
CITY OF LAS VEGAS AUDIT OVERSIGHT COMMITTEE
City Hall - 8th Floor Conference Room
400 Stewart Avenue
Las Vegas, Nevada
City of Las Vegas Internet Address: <http://www.lasvegasnevadagov>**

**April 21, 2005
10:00 a.m.**

CALL TO ORDER: Chairman Kern called the meeting to order at 10:08 a.m. and announced that the Open Meeting Law had been met.

ATTENDANCE:

Present: Chairman Michael Kern
Councilman Larry Brown
Councilman Lawrence Weekly (arrived at 10:55 a.m.)
Member Paul Workman (arrived at 10:12 a.m.)
Member Jose Troncoso
Steve Houchens, Deputy City Manager
Elizabeth Fretwell, Deputy City Manager
John Redlein, City Attorney
Radford Snelding, City Auditor
Bryan Smith, Sr. Internal Auditor
Phillip Cheng, Sr. Internal Auditor
Gary Philips, Internal Auditor II
Barbara Jo Ronemus, City Clerk
Stacey Campbell, Deputy City Clerk

BUSINESS

1. Approval of the Final Minutes by reference of the Audit Committee Meeting of January 20, 2005.

BROWN - Motion to approve – TRONCOSO seconded the motion - UNANIMOUS with WORKMAN and WEEKLY excused

(10:08 – 10:09)
1-12

2. Discussion and possible action on Schedule of Additional Meetings.

Chairman Kern reminded everyone that this item had been discussed during the last meeting in January. Holding additional, follow-up, or report card meetings would allow the Committee to more fully review audit activities. The meetings could be informally scheduled on the third Thursday of interim months before the next regularly scheduled Quarterly Audit Committee Meeting. A defined schedule would not be necessary as the Chairman and Mr. Snelding would review carry over and new agenda items and could call an interim meeting only if needed and assuring there were sufficient

committee members available. Chairman Kern indicated he was in favor of such meetings.

BROWN - Motion to approve having additional meetings which would not be officially scheduled unless there was a need and sufficient committee members were available – TRONCOSO seconded the motion - UNANIMOUS with WORKMAN and WEEKLY excused

(10:09 – 10:10)

1-25

3. Discussion and possible action on the appointment of a Vice Chairperson.

Previously discussed at the Audit meeting of October 19, 2004, this item was to be presented to the City Council on April 20, 2005, so the Council could adopt bylaws. Mr. Snelding explained that this item was not presented during that meeting because adequate research had not been completed. He suggested the item be tabled to allow staff from the City Attorney and City Clerk's Offices additional time to review and study the issue. City Clerk Barbara Jo Ronemus suggested tabling the item until a recommendation could be made to the Committee.

Chairman Kern wanted assurance that in the event of his absence, Councilman Brown or Councilman Weekly would be able to step in to chair the meeting. Attorney Redlein explained that during Council meetings, if Mayor Goodman and Mayor Pro Tem Reese were absent, Councilman Brown would be able to Chair the Council meeting.

Councilman Brown asked Mr. Snelding if the Committee would make a recommendation that the Council would ratify regarding this issue. Mr. Snelding answered that during the review, that possibility would be examined. He cautioned against having the process tied too tightly with Council, which could stop the motion of the Committee until the issue is resolved. He would investigate options for the interim with Attorney Redlein, who assured the Chairman that he would review the bylaws immediately.

BROWN - Motion to table – WORKMAN seconded the motion - UNANIMOUS with WEEKLY excused

(10:10 – 10:15)

1-65

4. General Report by the City Auditor.

Mr. Snelding summarized the continuous follow-up program noting the Credit Card Receipting policy being implemented under the direction of Mr. Cimo. Also, an audit conducted at Woodlawn Cemetery has been completed and is in the reporting phase by Mr. Smith. Mr. Snelding indicated he is handling the planning phase of the SafeKey Cash control. This area is being addressed because the current controls are very weak as proven by the Kit Carson report. Half of the fraud investigations involve

cash handling that relate specifically to SafeKey. He explained the Metropolitan Police Billing Formula audit is currently on hold.

Mr. Phillips is working on 12 investigations that are currently in progress along with six control reviews where the reporting is in process. Mr. Smith and Mr. Phillips have completed three control reviews.

(10:15 – 10:18)
1-209

5. Discussion and possible action on FY 2005-2006 Budget.

Mr. Snelding prepared a presentation in response to several inquiries about the workload of the City Auditor's Office. There has been an increased workload over the past few years and a redirection of efforts. The number of auditable entities has been increased, which reduces the size and scope of necessary audits, resulting in smaller reports with a quicker turn around. When dealing with performance issues, this is highly advantageous. A comparison was made between Las Vegas and eight other cities relating to population, auditors and the percentage of performance audits. The comparison showed that the City has fewer auditors than cities such as Memphis, Tennessee, Portland, Oregon and Long Beach, California. He also compared the City's number of auditors to Clark County, Henderson and North Las Vegas.

To demonstrate that his department is accomplishing more without additional staff, Mr. Snelding cited some examples. The department audits high, medium and low risk entities on a cyclical basis to get entire coverage of the City. The industry standard for that cycle would be about five years, with the current staffing level, that cycle takes 15 years within the City. In the past five years, the Auditor's Office has been responsive to Council requests such as Sportspark Agreements, the Rental Agreement with the Mexican Patriotic Committee, Animal Foundation, Neighborhood Services Review and a review of transactions at Treasures. Additionally, with the implementation of the Fraud Policy and the Fraud Policy procedure, the Auditor's Office has become much more involved in reviewing and investigating fraud activities and that action will continue. The department continues to produce annual follow up reports in conjunction with the bi-weekly progress reports given to the City Manager's Office. Recently, the department has been tasked with addressing questionable activities and transactions as well as a continuous review of cash handling practices in an attempt to identify potential problems.

To meet the demand of the increased workload, the department has leveraged technology to increase database productivity, contracted with experts when necessary, hired an intern and moved a filled Management Analyst position to an Internal Auditor position.

Mr. Snelding reported on the hours worked on investigations annually since the 2002-2003 year. When duties began which related to the Fraud Policy, the hours dedicated to investigations sky rocketed. He noted that any resources dedicated to this task are being taken away from performance audit activities.

To remedy the situation, Mr. Snelding proposed changing the cyclical basis of auditing to a "hot button" style of review. Using that method, the highest priority in the highest risk areas would be addressed first. While the cyclical approach gives better coverage, a 15-year audit cycle is too long. He also suggested the department continue to use interns for staff level support and experts on a contract basis. Temporary staffing could also be helpful. These suggestions would keep the department at status quo. To improve the situation, he proposed hiring one or two internal auditors and increasing the contractor budget to \$60,000. Mr. Snelding explained that performance auditors are very difficult to find and even if he were given more than two positions, he did not feel they could be filled. In addition, his department would not be able to find room and equipment for more than two.

When asked to prioritize his suggestions, Mr. Snelding indicated he would rather have one full time auditor added to his staff because with the current budget, after spending the money required for the intern, he would still have money left to contract experts if needed. Having a full-time employee on staff who is familiar with the inner workings of the City would be more beneficial than having temporary staff come in to run schedules.

Councilman Brown advised the other members that the budget process for positions is very competitive this year and it would be best to ask only for what could be defended and justified. Chairman Kern felt the needs were greater than as presented. He thought the budget request of \$60,000 was understated. He was opposed to outside "cookie cutter" auditing. Chairman Kern thought the cyclical needs and the hot button risk assessments to be critical. The 15-year cyclical audit cycle allows an area that needs to be addressed to go unchecked for years and eventually become a hot button issue. The interns can be used effectively and are valuable. He commended the audit team for doing such a great job while being understaffed. He supported all of the suggestions of Mr. Snelding. Mr. Workman concurred and offered to speak in front of the Council if necessary. Mr. Troncoso agreed and complimented the staff.

Councilman Brown suggested that the motion include a direction for Mr. Snelding to make this same presentation during the budget workshop scheduled for May 2nd. Mr. Snelding clarified that the budget packet submitted for his department for the upcoming budget cycle did not include any of the proposals being discussed. Steve Houchens, Deputy City Manager, clarified that the budget process is still ongoing and Mr. Snelding would not be excluded from making the additional requests.

Mr. Snelding also mentioned that to get the City to a five-year audit cycle, more than two auditors would have to be added. Doing so would be difficult because there are not many qualified auditors and even if they found five or six auditors to hire, there is no room or equipment available for them. It would take approximately one year to hire and train two auditors.

WORKMAN - Motion to direct Mr. Snelding to appear at the Special Council Meeting scheduled for May 2, 2005, to amend his budget packet to request approval of two full-time auditors and an increase to \$60,000 of the Contractors

Budget with a strong recommendation of support from the Audit Committee for these increases – TRONCOSO seconded the motion - UNANIMOUS

(10:18 – 10:56)

1-317

6. Discussion and possible action on follow-up status and activities.

Mr. Snelding stated that as of April 8, 2005, 735 recommendations were complete leaving 96 to be completed. Thirty-three of those are waiting for systems work and 9 are not yet due. There are 54 items which are still incomplete and that equates to about 7 percent.

He noted that once a recommendation is made, the item goes into the follow-up process. The only way for that item to be cleared is for the recommendation to be implemented and the action to have effectively relieved the issue. Mr. Smith explained there is a recommendation relating to the Office of Business Development, which recommends the establishment of a project time tracking system for significant marketing and development/redevelopment projects. The Auditor's department believed the information would be valuable in measuring the efforts of staff on individual projects and with workloads. The new department Director, Scott Adams, does not agree that a detailed time tracking system is necessary for his Office at this time because he is able to measure the effort and workload of his staff sufficiently for his needs. The Auditor's Office still believes it is always good practice to track time on a project basis but submitted the recommendation to the committee for consideration of clearing the case after hearing Mr. Adam's rationale for not following it.

Mr. Adams explained that he did not intend to show any disrespect for the auditors, Council members or the Audit Committee with his decision to not follow the recommendation. The decision was made based on a great deal of experience in managing similarly sized entities and also in looking at the most affective way to manage and realize performance.

The department is currently using a combination of labor distribution codes, which are at an aggregate level to various activities of the Office. There is a great deal of progress and status reporting being done as well. All staff must report into a weekly database driven project status report. This tracks the status of any project of significance. That report gets reduced to a more finite report of real projects. There is a lot of time spent in the Office on projects that never come to fruition. For every one project that gets completed, staff encounters approximately 20 dead-end activities. The dead-end reporting is currently being handled through the labor distribution code effort. He did not feel time sheeting would be cost effective in his department.

Mr. Adams concluded by saying he would honor the wishes of the Audit Committee and would time sheet if necessary.

Councilman Weekly stated that his Office receives weekly updates on projects and a thorough report at Council Meetings. He would be in favor of deleting the recommendation.

Mr. Workman stated that dead-end reporting entities are not as effective as entities who do not. He concurred that the Office of Business Development could be run without this type of measurement. Chairman Kern concurred.

Councilman Brown asked if allowing this recommendation to be cleared would adversely affect any other departments or set a precedent for other departments to not follow recommendations. Mr. Snelding explained that the recommendation was made to their method of time tracking and that is unique to a few departments. He noted that in his Office, tracking allows him to know what his employees are working on. The recommendation was a control issue and he deferred to whatever decision the members would make. He was unaware of any other departments that would be negatively affected by not enforcing this recommendation.

Chairman Kern suggested that if the members entertained a motion eliminating the recommendation, that it be conditioned upon the duration of Mr. Adams position as Director of the department. Circumstances change and perhaps a new director would not use the same tracking devices and need would arise again. Mr. Smith explained that there have been some changes in responsibilities since the audit. Specifically, one of the staff members was charged with monitoring all activity relating to Yucca Mountain and that function has been taken away from that Office. That was one of the primary issues driving the recommendation. Having one member focusing all efforts on Yucca Mountain without being able to say how much time was actually being spent prompted concern. Mr. Smith could not identify any problems with clearing the recommendation.

Mr. Adams pointed out that on another issue, he would like to timesheet to better justify pushing the General Fund expense over to RDA Industrial Revenue Fund expense. He felt too much of the department's overhead is charged to the General Fund and it could stand-alone from a revenue standpoint. He reiterated that he is not against time sheeting, he just did not want to time sheet dead-end activities.

Councilman Weekly asked if other department heads track in a similar fashion. Mr. Houchens stated the City is very good at tracking information and department heads are encouraged to aggregate that information into what is most meaningful to them. Some detail more than others and it depends upon the director's management needs.

WORKMAN - Motion to clear the project time-tracking recommendation issued to the Office of Business Development as long as Mr. Scott Adam's is the director of that department – TRONCOSO seconded the motion - UNANIMOUS

(10:56 – 11:17)

1-1642

7. Discussion and possible action on external audit contact.

Mr. Snelding explained that at a previous meeting of the Audit Committee, Chairman Kern questioned whether outside auditors were using internal audit reports to identify issues that have already been addressed. Mr. Snelding was asked to make contact with the external auditor and that contact has not been made due to scheduling

conflicts. Mr. Snelding suggested the item be carried forward and he assured the Committee he would continue to try and make contact with the external auditor.

(11:17 – 11:18)

1-2495

8. Discussion and possible action on an Actuarial Study of one of the City's self-insurance funds from 2002-2003 Annual Audit Recommendation Follow-up CAO 2600-0304-05.

Mr. Snelding indicated that during Audit Committee meetings of October 19, 2004 and January 20, 2005, partial actuarial study of worker's compensation claims was discussed. At the conclusion of that discussion, Councilman Brown requested that the results of the study be reviewed for the next Audit Committee meeting. Vickie Robinson, Insurance Services Manager, has informed Mr. Snelding that Mercer, the contractor, has submitted a preliminary draft to the Finance Director. The final conference between the chief actuary and the involved entities occurred on Monday, April 18, 2004 and at that time, they agreed that a final actuary on the study would be issued within the next 10 days. The implementation of the risk management computer systems is ongoing and it is anticipated to be fully functional on or before June 30, 2005. He suggested bringing the item back for review at the next meeting.

BROWN - Motion to bring the item back for review at the July 21, 2005 Audit Committee meeting – TRONCOSO seconded the motion - UNANIMOUS

(11:17 – 11:18)

1-2495

9. Discussion and possible action on Audit of Controls Over City Utility Payments and Costs CAO 2001-0405-03.

A Verbatim Transcript is made a part of the final minutes.

Appearance List:

Michael Kern, Chairman
RADFORD SNELDING, City Auditor
BARBARA JO RONEMUS, City Clerk
BRYAN SMITH, Sr. Internal Auditor
LARRY BROWN, Councilman
LAWRENCE WEEKLY, Councilman
JOHN REDLEIN, Deputy City Attorney
PAUL WORKMAN, Audit Committee Member

WORKMAN – Collect information necessary to allow better cost allocations and identify cost centers where savings can be found through efficiencies – TRONCOSO seconded the motion - UNANIMOUS

(11:19 – 11:20/11:53 – 12:05)

1-2495/2-441

10. Discussion and possible action on Internal Control Review – Activity Report – December 31, 2004 CAO 2900-0405-04.

Mr. Snelding explained that the activity report on internal control memos was the first of its kind. When theft occurs, the Auditor's Office creates a memo to the department head that addresses the control efficiencies in that area to be corrected. On a semi-annual basis a summary report will be generated so that the Audit Committee members and the public can be aware of the incidents. Also, the findings and recommendations will be added into the follow up report to insure all areas of concern are addressed. The report contained issues relating to five theft incidents and was complete through December 31, 2004.

The first incident involved the mailroom change fund theft. The subject employee left IOU's and undated checks in the amount of \$470.00. Several issues relating to internal controls such as written procedures, limited access and unannounced inspections were identified and have been addressed.

The second incident involved cash handling procedures at the West Community Center. A deposit was not made after being documented six days prior. Upon notification from the Auditor's Office, the deposit was made the following day. Several control issues were identified such as not using appropriate forms and not following written procedures. The Auditor's Office recommended adequate training and that the supervisors perform daily queries to insure timely deposits.

The third incident related to Procurement Card (P-Card) misuse. A supervisory employee was purchasing supplies for his own private business with his P-Card. The City received a phone call from one of the vendors from whom the employee had purchased supplies. That phone call raised suspicion. Upon investigation, it was discovered that the same individual had also made four restaurant purchases, including cash back transactions, with the card as well. The questioned purchases were not for City of Las Vegas business. The Auditors felt the misuse could have been caught by the Department prior to the intervention of an outside vendor. Recommendations were made to insure all cardholders were aware of appropriate policy and procedures relating to P-Cards and that reviewers follow up and require detailed receipts.

Of the two remaining issues, one pertained to an investigation into a petty cash theft in Planning & Development, which has already been heard before the committee and is in the process of being resolved.

The final incident involves \$103,000 in Leisure Services deposits that were diverted for personal use. The investigation did trace approximately \$19,000 to an ex-employee. The Marshall's Office investigated this incident and referred it for prosecution. Since that time, the policies and procedures of the department have been changed and strengthened so that this will not happen again. The remaining missing monies could not be traced because of the lacking controls.

BROWN - Motion to accept the report – TRONCOSO seconded the motion - UNANIMOUS

(12:05 – 12:12)
3-175

11. Discussion and possible action on Audit of Durango Hills Golf Course – Management Contract CAO 1701-0405-05.

Mr. Snelding introduced Philip Cheng, who reported that this audit was not on the cycle audit plan and was considered a hot button issue. The course was financed with bonds and once open in November of 2002, a golf management company was contracted to operate the facility.

The objectives of the audit were to determine whether adequate controls were in place to insure contract compliance and to determine whether the golf course was financially viable. The audit findings were divided into four categories: Financial Performance, Contract Oversight, Contract Compliance Issues and Tax Issues. The finding relating to Financial Performance resulted in a recommendation that the City Council and City Manager determine the long-term plan to finance the deficit of the operation because it is not financially viable at this time. Regarding the Contract Oversight category, the audit found that the current oversight for the golf course is inadequate to mitigate the City's financial risk while insuring contract compliance. Several Contract Compliance category issues were determined such as the contractor failing to submit required monthly reports to the City, a lack of comprehensive policies and procedures and a lack of adequate internal control to insure proper accounting of all revenues. In the final category, Tax Issues, Mr. Cheng identified several concerns in this area. The audit revealed that the contractor overpaid the Department of Taxation over \$100,000. Also, because the City has outsourced to a private business, the City is losing money by paying property taxes, sales and use taxes on equipment purchases and sales and excise taxes on supply purchases. The recommendation is that the City reconsiders outsourcing to a private business for this function.

Chairman Kern commended Mr. Cheng on the findings of the audit. He questioned if the contract specified that the contractor should have contacted the City prior to paying the property taxes in 2004. Mr. Cheng indicated that the City purchased the equipment in 2002 when the course was built and property taxes were not paid at that time. However, subsequent to the purchase, and after the golf course opened, the City was notified that additional monies were due because of possessory interest and the golf course paid the taxes with the City reimbursing the contractor. That expense was approximately \$30,000. Chairman Kern asked if the City could recover those overpayments if an amended tax form was submitted. Mr. Cheng stated the City Attorney's Office is pursuing that. Mr. Redlein confirmed he is working on the problem but the City is currently at odds with the County Tax Assessor's Office over the issue. He explained that the contractor is allowed to be on the land, they have no possessory rights over any equipment. The Tax Assessor's Office is disagreeing. Mr. Redlein indicated the matter would most likely be litigated.

Councilman Brown recommended advancing the litigation against the Tax Assessor's Office. The City owns the land, controls hours and pricing and manages the facility and just because there is a contractor present does not alter the City's status. Mr. Redlein agreed.

Chairman Kern questioned the duties of the external contractor. Mr. Snelding explained that Mr. Hilker worked as a secret shopper and a report was generated from that experience. Mr. Hilker also had industry experience in reviewing golf course audits. Mr. Cheng agreed. Not being golf course experts, the audit staff needed assistance in determining items such as, how many rounds should a golf course make, how much should food and beverage sales generate per round and how much merchandise should be sold per round?

Mr. Cheng pointed out that there was no identifiable way to measure performance in the contract. The City assumes a lot of risk by not having performance measures. They must be established. Also, the monthly reports have not been consistently submitted.

Chairman Kern questioned the \$19,000 petty cash fund referenced in the audit report. He was concerned that \$3,300 worth of payroll expense was paid through that fund with no indication of how it was handled by accounting. He hoped the City Manager's Office would follow up on the recommendations on the findings of the report.

Councilman Weekly recalled when the item was first brought before the Council, it was established that the operation would lose money in the beginning. He also questioned the communication breakdown that led to this audit and asked if the City would continue to use the current operator. Steve Houchens, Deputy City Manager, explained that the City hoped to make money from the start of operation and that did not happen. The numbers were based on 72,000 rounds per year and that is attainable but has not happened yet. The City hopes to break even within one year but that would not cover debt service. Mr. Houchens commended the quality of the audit. It indicated shortcomings of the City and the contractor and meetings have been started to address the issues.

Councilman Brown said the decision to build the golf course was questioned but commitments had been made so the course was built. The projection of 72,000 rounds was very aggressive and should have been reviewed more closely. The City acknowledged that it would be likely the course lost money from the start. The vacant land adjacent to the course was to be reserved as an asset to offset the losses. The debt service on any public facility involves a large amount of debt service. Most of those facilities are unable to pay off debt service and maintenance operations. If the debt service is removed from the numbers for the golf course, the losses are lower.

He indicated the bottom line is that this is a great public resource with great response and potential. This golf course, in a short period of time, has been voted Executive Course of the Year and some of the holes have been profiled in local and regional golf magazines and customer satisfaction is outstanding. The audit identified contractual issues that have to be resolved to succeed.

Mr. Workman pointed out that when this course was built, several other courses were coming online as well. Now, that growth has ceased due to issues such as water consideration. With the growth of the City, the course will be used more when the supply and demand curve shifts. He recommended looking to the long term for this facility. Councilman Brown reminded him the City does not build public facilities to drive profits but to provide recreational and leisure opportunities throughout the valley. Because of that, it should not be compared to other golf courses that are in business to make as much profit as possible. The goal for this course is similar to recreation centers, to break even with a small profit to help pay off debt.

Mr. Cheng indicated that he did review some budgetary information for the course but it was not as much as he would have liked. No matter what the numbers are, without accountability, the numbers mean nothing. Until the course can break even with payment towards debt, there is no incentive for the contractor to perform.

Chairman Kern encouraged the City Manager's Office to pursue the findings and contractual arrangement, which is beyond the scope of the Audit Committee.

KERN - Motion to accept the findings of the report – BROWN seconded the motion - UNANIMOUS

(11:20 – 11:53)
1-2640

CITIZENS PARTICIPATION:

None.

(12:13 – 12:13)
3-446

ADJOURNMENT:

The meeting adjourned at 12:14 a.m. (3-450)

RESPECTFULLY SUBMITTED,

Stacey Campbell, Deputy City Clerk II

CITY AUDITOR'S OFFICE



AUDIT OF CONTROLS OVER CITY UTILITY PAYMENTS AND COSTS

Report No. CAO 2001-0405-03

April 4, 2005

RADFORD K. SNELDING, CPA, CIA, CFE

CITY AUDITOR

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AUDIT OF CONTROLS OVER CITY UTILITY PAYMENTS AND COSTS CAO 2001-0405-03

BACKGROUND

The City spent over \$16.6 million on power, water, gas, and trash collections in fiscal year 2004. The approximate costs by utility type are as follows:

Power: \$11.72 million
Water: \$2.78 million
Trash: \$1.58 million
Gas: \$550,000

The City has approximately 2880 power meters, 449 water meters, 65 gas meters, and 212 trash service accounts.

Requests for utility services for city facilities and sites are made by designated city staff in the departments of Field Operations and Public Works. Accounts Payable staff process utility billings on the city mainframe and authorize payments to the utility providers.

OBJECTIVES

Our objectives in completing the audit of controls over city utility payments and costs were to:

- Review the controls over the payment of utilities.
- Review the adequacy of utility usage monitoring procedures.
- Review the adequacy of utility information available for monitoring usage and costs.
- Review the adequacy of the policies and procedures over the monitoring and payment of utilities.

SCOPE AND METHODOLOGY

Our fieldwork was performed in accordance with generally accepted governmental auditing standards. Procedures included:

- Interviews with city personnel.
- Discussions with utility company staff.
- Review of established policies and procedures related to utilities.
- Testing of established controls.
- Review of utility billing and payment documents.

Our work was limited to a review of the policies, procedures, and controls over power, gas, water, and trash service payments and costs. The use of the term utilities in this report refers only to these four services.

FINDINGS AND RECOMMENDATIONS

Our audit identified issues management should address to improve the controls over utility payments and costs. These issues are summarized in the following sections. While other issues were identified and discussed with management, they were deemed less significant for reporting purposes.

1. UTILITY USAGE MONITORING

Criteria:

- Routine monitoring and analysis of utility usage and costs can help identify significant or irregular activity that can be evaluated to identify problems or reduce utility costs.
- An effective utility usage monitoring program should include the following elements:
 - Identification of those responsible for usage monitoring.
 - Identification of the scope of the monitoring program.
 - Identification of information to be monitored.
 - Frequency of monitoring.
 - Reporting guidelines.

Condition:

- The city does not have a comprehensive and coordinated utility usage monitoring program for power, gas, water, and trash services. The city's monitoring of its usage of power, gas, water, and trash service is limited to the following:
 - Parks and Open Spaces staff review gallons of water used and costs of many water meters.
 - Streets division staff review the number of cubic yards of garbage taken by staff to the city dump.
 - Environmental division staff review utility usage at the city's Wastewater Pollution Control facility.
 - Accounts Payable staff generally monitor total utility bills for any significant changes in amounts from the prior billing period.
- The future use of the mainframe for processing of utilities is currently being evaluated by the city's IT department.

Cause:

- Lack of a designated individual or department to develop and oversee a utility usage monitoring program.

- Utility usage information by facility/site and department is currently inadequate for an effective monitoring program.

Effect:

- Without a formal utility usage monitoring program:
 - Utility company billing errors may not be identified.
 - Significant fluctuations in usage may not be identified and investigated.
 - Areas where conservation measures could be taken are not easily identified.
 - Inadequate information for operational review and management planning.

Recommendations:

1. The City Manager's Office working with Field Operations, Public Works, Information Technology and the Department of Finance should coordinate the development of a comprehensive and coordinated utility usage monitoring program for power, gas, water, and trash service. In developing the program, the following should be addressed:
 - a. Identification of individual(s) and departments to lead implementation of program.
 - b. Division of oversight responsibility for meters and services.
 - c. Identification of information to be monitored.
 - d. Identification of individuals responsible for monitoring.
 - e. Frequency of monitoring to be performed.
 - f. Improvements needed in data and reports to facilitate monitoring.
 - g. Communication with utility companies.
2. In conjunction with the development of the utility usage monitoring program, Information Technologies should evaluate the needs of this program and use this information in establishing utility processing on a new systems platform.

2. UTILITY INFORMATION

Criteria:

- An effective utility usage monitoring program requires the accumulation and dissemination of useful and reliable data on utility costs and usage.

Condition:

- Deficiencies were identified in the utility information currently available as follows:
 - A mainframe report identifies differences in utility charges greater than 10% from the prior billing period with a plus or minus sign, but does not identify the percentage or amount of the difference. While this report is generated in conjunction with each billing, it does not appear to be consistently used by anyone for usage monitoring.

- While addresses are included for many meters, it is difficult to determine the site a meter is associated with by the description (i.e., firestation, community center, park).
 - Meters for some city facilities and sites are represented by multiple accounts and multiple addresses. Therefore, it is challenging to identify the total costs associated with a single facility or site.
 - The meter numbers on mainframe reports are not always the most current meter number. Certain utility companies do not update their billing records when a meter is replaced and rely on account numbers rather than meter numbers for billing purposes.
 - Gas therms used data is being input into the mainframe but is not reported on a mainframe report for monitoring.
 - Records of physical verification of utility meters are not maintained.
- Additional information may be available on the electronic/manual billings or from the utility companies that could be useful in improved monitoring of utilities. For example, Parks Maintenance personnel identified the need for information on the size of water meters and the type of water associated with the meters (e.g., potable, irrigation, mixed).
- The city receives quarterly service invoices from its trash collection provider for each account. An account is a city facility or site that has trash containers that are emptied on a regular basis. The city also receives monthly invoices for container rentals from its trash collection provider. The service rates and the container rental rates on these invoices are based on commercial service rates established by the trash collection provider. The established commercial service rates are based on container sizes and the number of pick-ups per week. The following deficiencies were identified with the information available on trash service:
- The trash service invoices do not identify the size or number of containers at an individual location or the number of pick-ups per week, only the applicable billing period and the total charges.
 - A reconciliation of trash services to billing records is not being completed as trash service information is not retained on the mainframe or in a centralized location. Therefore, there is currently no relative assurance that the city is being accurately charged for trash service. The city could begin retaining this information in a database or on a common spreadsheet for reconciliation purposes.

Cause:

- Lack of evaluation of adequacy of utility information available for monitoring purposes.
- Incomplete information on billings.

Effect:

- Utility usage and costs cannot be adequately monitored with current utility information.

Recommendation:

1. In conjunction with the development of a utility usage monitoring program, the City Manager's Office working with Field Operations, Public Works, Information Technology and the Department of Finance should address the identified utility information deficiencies and coordinate the enhancement of the utility information available for use in the program.

3. ALLOCATION OF UTILITY COSTS

Criteria:

- The financial results of an entity are most accurately reflected when all costs associated with its operations are captured and matched against its revenues.

Condition:

- In fiscal year 2004, only approximately 24% of the city's utility costs were allocated to associated cost centers for financial reporting purposes. These were costs related to enterprise and special revenue funds. The remaining 76% of the city's utility costs were allocated to the general government fund rather than being allocated to associated cost centers.
- Allocation of utility expenses to associated cost centers is not currently feasible as many of the utility meters and trash service accounts have not been assigned to cost centers for cost allocation purposes.

Cause:

- Lack of a cost allocation program for most utility costs.
- Lack of complete information on utility accounts for cost allocations.

Effect:

- Financial results of individual city departments/cost centers do not reflect the full cost of operations.
- Incomplete cost information for management decisions.

Recommendation:

1. In conjunction with the development of a utility usage monitoring program, the Department of Finance should develop and implement a more extensive utility cost allocation program.

4. UTILITY ACCOUNT APPROVAL VERIFICATION

Criteria:

- Consistent standards for the accumulation and documentation of information on new utility accounts can facilitate verification of appropriate authorization.

Condition:

- New utility services are requested by designated city staff in the departments of Field Operations and Public Works.
- When processing utility invoices, Accounts Payable clerks identify accounts on billings that have not yet been established in the mainframe. Prior to establishing a new account on the mainframe, the clerks verify that the account was authorized by a city employee through calls or e-mails to city staff. Certain departments send notifications of new accounts to Accounts Payable while others do not.
- New street lighting and traffic signal power accounts are verified by Accounts Payable clerks through reference to a spreadsheet of authorized meters maintained on a common network drive by the Traffic Engineering Field Operations (TEFO) division.
- Accounts Payable clerks include evidence of new account approvals (e.g., copy of e-mails, notes of discussions, notifications from departments) with the billing payment batches. Evidence of the approvals is not easily accessible for reference.
- Efficiencies could be achieved with more consistent standards on the communication of new utility accounts to Accounts Payable and the documentation of information on new utility accounts.

Cause:

- Inconsistencies in how new utility accounts are communicated to Accounts Payable by city departments.
- Inconsistencies in how new utility accounts are being documented and tracked by departments.

Effect:

- Accounts Payable staff must spend time obtaining information on new utility accounts.
- Approval information on new utility accounts is not easily accessible.

Recommendation:

1. The City Manager's Office working with the Departments of Field Operations and Public Works should establish consistent standards for the communication of new utility accounts to Accounts Payable and the documentation of new utility accounts.

Consideration should be given to recording new utility account information in a database or spreadsheet accessible by Accounts Payable and other city departments.

5. TERMINATED UTILITY ACCOUNTS

Criteria:

- Consistent standards on the communication and documentation of information on terminated utility accounts can facilitate the review of utility billings for continued charges on these accounts.

Condition:

- Inconsistencies were identified in how city departments communicate terminated utility accounts to Accounts Payable. Certain departments are notifying Accounts Payable of terminated accounts while others are not.
- Without being notified of terminated utility accounts, Accounts Payable staff cannot verify that the accounts have been properly removed from utility billings.
- Accounts Payable staff verify that terminated power accounts that they are made aware of are dropped from the power billings. However, these verification procedures are not being completed for terminated water, gas, and trash service accounts.

Cause:

- Lack of requirement for reporting terminated utility accounts to Accounts Payable.
- Lack of verification procedures to ensure that terminated water, gas, and trash service accounts have been properly removed from utility billings.

Effect:

- The City could inadvertently be paying on terminated utility accounts that have not been appropriately removed from utility billings.

Recommendations:

1. The City Manager's Office working with the Departments of Field Operations and Public Works should establish consistent standards for the communication of terminated utility accounts to Accounts Payable. In addition, consistent standards should be established on the documentation of these accounts. Consideration should be given to recording this information in a database or spreadsheet accessible by Accounts Payable and other city departments.
2. The Department of Finance should document and implement procedures for Accounts Payable staff to follow to ensure that the city is no longer being billed for terminated utility accounts.

6. UTILITY BILLINGS

Criteria:

- Electronic billing files facilitate efficient payment processing.

Condition:

- While electronic billing files are received for power and water, paper billings continue to be received for gas and trash services. The gas and trash service providers do not yet offer electronic billings. Accounts Payable staff must manually input information from the billings into the mainframe.
- The utility providers with paper billings sometimes send the paper bills to the city facility or site where service was established rather than directly to Accounts Payable. Delays are periodically experienced in getting the paper bills routed to Accounts Payable.

Cause:

- Electronic billings are not yet available from two utility service providers.

Effect:

- Manual data input time required for paper billings.

Recommendation:

1. The Department of Finance should explore obtaining electronic billing files from the gas and trash service providers or alternative methods to reduce manual data input.

7. UNAUTHORIZED USE OF STREETLIGHT CIRCUITS

Criteria:

- Unauthorized use of streetlight circuits by developers and contractors creates additional power costs and liabilities for the city.

Condition:

- The TEFO Division of Public Works inspects, maintains and repairs traffic control devices (signals, signs, and road markings), street lights, and park lighting. TEFO also reviews street lighting, traffic signal, road projects and subdivision plans.
- Following an inspection of electrical services for streetlights at new developments, TEFO submits a request to the power company to install a meter and energize the service under the city's name. Once power has been established and staff are available, TEFO staff return to lock up the meter.

- Per TEFO staff, contractors and developers regularly connect to the city's energized meters to turn on streetlight circuits prior to final inspections and approval by the city. With this practice, the city is inappropriately paying for power usage by contractors and developers and the city is subject to increased liability if a meter is misused.
- Public Works plans to address this problem by requiring developers or contractors to request meter service from the power company in their name until the city takes ownership of the streetlights. The developers or contractors would then be required to accept financial responsibility for power costs and the liability for keeping the circuit safe and secure prior to transferring ownership to the city. With this plan, developers and contractors will be able to access power as needed without concern of disconnects by city staff.
- This plan has not yet been implemented and the documents for addressing this problem have not yet been created.

Cause:

- Long-standing practice of developers and contractors.
- Limited staff to ensure developers and contractors are not accessing power.

Effect:

- The city is paying for power used by developers and contractors who have inappropriately accessed city meter boxes.
- Potential liability to the city for misuse of meter boxes.

Recommendation:

1. Public Works should move forward in making all necessary changes to address the problem of developers and contractors inappropriately accessing the city's power meters and thereby eliminate the cost of unauthorized use of power from the meters and the liability of the city for any misuse of the meters. The department should obtain legal counsel where needed to implement the change.

**MANAGEMENT RESPONSES
TO
AUDIT OF CONTROLS OVER CITY UTILITY PAYMENTS AND COSTS**

Recommendations 1.1, 2.1, 3.1, 4.1, 5.1, 5.2, and 6

Management Plan of Action – City Manager’s Office:

The issues brought forth in the audit will need to be addressed through organizational change. To that end, the City Manager’s Office has created a Utility Management Task Force to address the issues. The Task Force will include, at a minimum, representatives from Finance and Business Services, Field Operations, Public Works, and Information Technologies. The Task Force will facilitate the development of a coordinated process for obtaining, managing and processing payments for utility services, specifically power, water, gas, cable, and solid waste.

The process will include identification and analysis of existing processes and lines of responsibility. It will identify the functional needs of utility stakeholders and create both an organizational as well as a technical solution to manage the program. This Task Force will address the recommendations brought forward in Findings 1 through 6.

We estimate addressing organizational needs in six months, and technological needs in 15 to 18 months. We appreciate the efforts of the auditors in their review of this process and look forward to their continued input as we respond to their findings.

Recommendation 1.2

Management Plan of Action – Information Technologies:

Information Technologies Management agrees that a program to monitor usage would establish the bases for identifying support solutions. The functional needs of the program, as well as whom and how many would be using it will help I.T. determine the appropriate system requirement. Early identification of the software requirements, users, and access will aid in the determination of the hardware component requirement as well. Additionally, the assessment of third party monitoring tools in the market could both automate and accelerate the discovery of system solutions and the implementation process.

Recommendation 7.1

Management Plan of Action – City Manager’s Office and Public Works:

We concur with the findings and recommendations of the auditors and have begun the development of a strategy to deal with unauthorized attachments and/or connections over the next 6 months.

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VERBATIM TRANSCRIPT -- ITEM 9

Item 9 - AUDIT CONTROLS OVER CITY UTILITY PAYMENTS AND COSTS CAO 2001-0405-03

Appearance List

MICHAEL KERN, Chairman

RADFORD SNELDING, City Auditor

BARBARA JO RONEMUS, City Clerk

BRYAN SMITH, Sr. Internal Auditor

LARRY BROWN, Councilman

LAWRENCE WEEKLY, Councilman

JOHN REDLEIN, Deputy City Attorney

PAUL WORKMAN, Audit Committee Member

(11:19 – 11:20/11:53 – 12:05)

1-2588/2-441/3-1

13 minutes

Typed by: Stacey Campbell

Proofed by: Vicky Darling

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23 **MICHAEL KERN**

24 Agenda Item 9 is the audit of controls over City utility payments and costs. We will now hear a report
25 from the City Auditor.

26

27 **RADFORD SNELDING**

28 Mr. Chairman, would it be possible to move to Item 11 and then, and move it to – this point on the
29 agenda and then – continue on, after we hear Item 11, with 9 and 10?

30

31 **MICHAEL KERN**

32 Unless there's any objection to that, we will –

33

34 **BARBARA JO RONEMUS**

35 You are agendaed properly to take them out of order. So if you'd like to, you may.

36

37 **MICHAEL KERN**

38 Great, we will now hear Item 11.

39

40 **END OF RELATED DISCUSSION**

41 **RESUME RELATED DISCUSSION**

42

43 **CHAIRMAN KERN**

44 Item 9 is the audit of controls over City utility payments and costs. Mr. Snelding?

45

46 **RADFORD SNELDING**

47 Yes, Mr. Chairman, Bryan Smith will report on the work done related to this particular report.

48

49 **BRYAN SMITH**

50 In fiscal year 2004, the City spent over sixteen point six million dollars in, on utilities cost as shown
51 here. And the objective of our audit was to review the internal controls over the payments and costs of

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52 the City's power, water, gas and trash services. And, my use of the term utilities in this presentation
53 relates exclusively to those four types of services.

54 First of all, we, relating to utility usage monitoring and information, we found that there's limited
55 monitoring of utility usage and cost taking place at the City. And there's a need for a coordinated and
56 comprehensive utility usage-monitoring program. And such a program would allow the City to
57 identify billing errors, identify significant changes in utility usage, better identify areas where
58 conservation measures can be taken and provide reliable information for operational review and
59 management planning. We also identified deficiencies in the existing utility information and reports
60 and the need for improved and expanded utility information to support an effective utility usage-
61 monitoring program.

62 Related to cost allocations, in fiscal year '04, we found that only 24 percent of the City's utility costs
63 were allocated to associated cost centers for financial reporting purposes. Therefore, the financial
64 results of individual departments in the City's annual financial statements do not reflect the full cost of
65 operations. And we've recommended that Finance create a more extensive utility cost allocation
66 program. And, of course, as you know with cost allocations, you – can't allocate every single cost to
67 an individual cost center. But we think we can do better than 24 percent.

68
69 **COUNCILMAN BROWN**

70 Mr. Chairman, if I may?

71
72 **CHAIRMAN KERN**

73 Yes.

74
75 **COUNCILMAN BROWN**

76 Bryan, just so I understand the cost centers, you're talking about respective divisions or departments –

77
78 **BRYAN SMITH**

79 Right.

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80 **COUNCILMAN BROWN**

81 – or areas?

82

83 **BRYAN SMITH**

84 Right. That, those 24 percent, in fact I think all of those costs relate to special revenue and enterprise
85 funds.

86 Our audit also identified inconsistencies in how new meters are, or services and terminated utility
87 accounts are being communication to Accounts Payable. And we found a need for more consistent
88 standards on communication and documentation of the new utility accounts. In addition, we identified
89 the need for improved verification procedures by Accounts Payable – to insure terminated accounts
90 are removed from the billings.

91 During the audit, we also found that the City continues to receive paper billings from two of our utility
92 providers for gas and trash services. And, considering the size of a customer that we are, we simply
93 recommended that the City explore opportunities with these utility companies to obtain electronic
94 billing files, which would reduce the data input time that we incur in our accounts payable processing.
95 And finally, in our discussions with Public Works staff, we learned that developers and contractors are
96 regularly connecting to the City's energized street light meters prior to final inspection by City staff,
97 thereby creating additional power costs for the City and liabilities for the City. While Public Works
98 has been aware of this practice and has a plan for dealing with the problem, the plan hasn't yet been
99 implemented and related documents haven't yet been created. And so, our audit recommendation was
100 simply that Public Works take all necessary measures to change this practice by developers and
101 contractors.

102 And we appreciate the cooperation that we received from all the City departments on this audit. And,
103 you'll see at the, in the back of the report is management's response to the audit. And, the City
104 Manager's Office has stated that they'll address our findings and recommendations through
105 organizational changes within the next six months and technological changes within the next 15 to 18
106 months. And, Public Works has stated that they'll address the unauthorized street light connections
107 within the next six months.

108 I'd be glad to answer any questions you may have.

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109 **CHAIRMAN KERN**

110 I, two questions, at least for right now. Were you able to quantify the dollar amount of the terminated
111 accounts that appeared to continue to receive billings?

112

113 **BRYAN SMITH**

114 No. And, in fact, as we did this audit, we were looking at the controls surrounding the process. And
115 so, without the control in place, you know, you can't really identify a cost.

116

117 **CHAIRMAN KERN**

118 So, are we aware that there are a number, small number, large number? Any idea how many
119 terminated accounts or is it an issue that just needs to be addressed?

120

121 **BRYAN SMITH**

122 You know, there are terminated accounts that – come through Accounts Payable periodically but, the
123 control's not there to insure that Accounts Payable is being told of all terminated accounts. And so to
124 insure that we're no longer being billed for a terminated account, we want to make sure that Accounts
125 Payable receives all of that information so that they can go to the bills and make sure that those meter
126 numbers are no longer being included on them.

127

128 **CHAIRMAN KERN**

129 So, it's an information share issue?

130

131 **BRYAN SMITH**

132 Exactly.

133

134 **CHAIRMAN KERN**

135 Okay. Councilman.

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136 **COUNCILMAN WEEKLY**

137 Yes. I'd just like to know about the unauthorized use of streetlight circuits. I guess my question is, do
138 you guys have an idea of how long this practice has been going on and at the tune of how much, to
139 date?

140

141 **BRYAN SMITH**

142 And that is a question that I asked and, unfortunately, they haven't been keeping any statistics on, in
143 this area. In talking with a couple people, it sounds like it's been going on for a long time.

144

145 **COUNCILMAN WEEKLY**

146 Have we been aware of this? I mean, knowingly, that – many of them have been doing this, utilizing
147 these services?

148

149 **BRYAN SMITH**

150 Have I been personally aware –

151

152 **COUNCILMAN WEEKLY**

153 No, Public Works.

154

155 **BRYAN SMITH**

156 From what I understand, they have been. But, of course, they'll take measures if they find out about it,
157 they'll go out there and they'll cut the line. I'm not sure there's any penalty assessed against that
158 contractor. But from what I've been told, the cost associated with reconnecting once the TEFO has
159 come out and cut that line is pretty substantial.

160

161 **COUNCILMAN WEEKLY**

162 And what would you guesstimate, I guess, a dollar figure?

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163 **BRYAN SMITH**

164 To connect that line or –

165

166 **COUNCILMAN WEEKLY**

167 No – just the unauthorized use?

168

169 **BRYAN SMITH**

170 You know, like I said, since Traffic Engineering isn't tracking this data, I have no way of knowing.

171 Of course, as a part of this audit I would have loved to have put a dollar figure in here. That would

172 have just further supported my issue. But, the most I could do, they're – telling me it's a regular

173 practice and that's the most I can tell you.

174

175 **COUNCILMAN BROWN**

176 Councilman?

177

178 **COUNCILMAN WEEKLY**

179 Yes.

180

181 **COUNCILMAN BROWN**

182 Put it – in more layman's terms, this is during the construction period? Like, if they're building a

183 subdivision –

184

185 **BRYAN SMITH**

186 Right.

187

188 **COUNCILMAN BROWN**

189 – they'll go hook into our outlet?

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190 **JOHN REDLEIN**

191 Larceny is what it's called.

192

193 **BRYAN SMITH**

194 Well, from what I'm told is –

195

196 **COUNCILMAN BROWN**

197 Is – there something in our streetlights that you can just get the extension cord and plug into?

198

199 **BRYAN SMITH**

200 No.

201

202 **UNIDENTIFIED SPEAKER**

203 Not that easy.

204

205 **COUNCILMAN BROWN**

206 It's not that easy but?

207

208 **BRYAN SMITH**

209 What happens is --

210

211 **COUNCILMAN BROWN**

212 'Cause I'd like to drive by and see one of these so I could call someone.

213

214 **BRYAN SMITH**

215 Thank you. From what I've been told, the Traffic Engineering, they go out and do an initial inspection
216 and they put some kind of red flag on a – meter box. And then the City calls Nevada Power and says,
217 okay, we've done our initial inspection, Nevada Power, you can come out, you can establish power to
218 that meter box, for the City. And – then, TEFO is supposed to go out and lock up that meter box, after

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219 power's been established. But considering the limited resources we have, the, they don't always get
220 out there immediately after the power's turned on. Now, from what I've been told also, there have
221 been incidents where TEFO's gone back out, they've put a lock on the meter box and the lock has
222 been cut.

223 Now, the technicalities going beyond that and how they plug in, TEFO is supposed to go out and after
224 a subdivision has been substantially completed, TEFO's supposed to go out and do a final inspection
225 and it's at that time that the streetlights can be turned on.

226

227 **PAUL WORKMAN**

228 Do you talk to any of the developers or homebuilders about this, as to why they do this or what they
229 would do to solve it. They could put a bond up or again, so that maybe this is why several of my
230 customers that are homebuilders, love to deal with Las Vegas. Free – I don't know, can do attitude.

231

232 **BRYAN SMITH**

233 Well, I think some, some of these developers, of course they'd like to turn on the streetlights as soon
234 as they can. You may have certain people that move in before the development is complete. So, they
235 may want to turn on those streetlights. From what I understand, they may use this power periodically
236 for model homes.

237

238 **PAUL WORKMAN**

239 Yes, models would go up, that's what it is. I would just recommend that some – homebuilders give
240 you their input as to how they could solve it. And the impact of Councilman's input, pay for every
241 dime of electricity before final inspection on that streetlight is concerned, for the models that are there.

242

243 **BRYAN SMITH**

244 Is, I'm – not sure if we have anybody from Public Works here, but, my understanding is the plan
245 they're going to take is, they're not going to have power established to this meter until the final
246 inspection.

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247 **PAUL WORKMAN**

248 That's the solution?

249

250 **BRYAN SMITH**

251 But there may be cases where, and I don't know what that reason would be, but there could be a
252 developer, contractor that needs that power. In that case, they could have the power established under
253 their name and then – there would be no liability to the City for misuse of – that meter box.

254

255 **COUNCILMAN BROWN**

256 Mr. Chairman, another question. Bryan or Larry, if you could answer this one. The 24 percent, we,
257 we've listed out the meters that are out there, so we know where our City meters are, we just have to
258 create organizationally, the ability to take these meters, put 'm in this cost center.

259

260 **BRYAN SMITH**

261 Exactly.

262

263 **COUNCILMAN BROWN**

264 So we know –

265

266 **BRYAN SMITH**

267 Although –

268

269 **COUNCILMAN BROWN**

270 So, we know at City Hall what the City Hall building is or the Detention Center, what that bill is.

271

272 **BRYAN SMITH**

273 One of the recommendations, well, one of our findings was that a lot the utility information is really
274 deficient. We need – to have better information in our – database of meters as to what is the exact

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275 location of that meter. And it's, it can be very complicated 'cause you can have a site that has multiple
276 meters, you may have one meter that may feed a couple different sites, from what I understand.
277 So, before you can really do a good cost allocation, you need good information. So, my
278 recommendation is, let's start, let's get our information together. Once we get good information, then
279 we can start making these cost allocations and better allocate those – expenses.

280

281 **COUNCILMAN BROWN**

282 And beyond that, be able to identify those cost centers that we can most save in efficiencies.

283

284 **BRYAN SMITH**

285 Exactly.

286

287 **COUNCILMAN BROWN**

288 Where're we gonna invest dollars to become more efficient if we, if we're kind of looking at just one
289 big bill.

290

291 **BRYAN SMITH**

292 That's right. And, we did have a recommendation related to, or directed at IT asking them to be
293 involved in this process because there is talk about the moving utility payment processing function off
294 of the City's mainframe and moving that, possibly, to Oracle. Hanson may be involved.

295

296 **COUNCILMAN BROWN**

297 Thank you, Mr. Chairman.

298

299 **CHAIRMAN KERN**

300 Any further questions? I'd entertain a motion.

301

302 **PAUL WORKMAN**

303 I make a motion.

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304 **JOSE TRONCOSO**

305 Second.

306

307 **CHAIRMAN KERN**

308 Is there a second?

309

310 **JOSE TRONCOSO**

311 Yes.

312

313 **CHAIRMAN KERN**

314 It's been moved and seconded, all in favor.

315

316 **ALL MEMBERS**

317 Aye.

318 **(END OF DISCUSSION)**

319 /sc;vwd

CITY AUDITOR'S OFFICE



INTERNAL CONTROL REVIEW ACTIVITY REPORT DECEMBER 31, 2004

Report No. CAO 2900-0405-04

April 14, 2005

**RADFORD K. SNELDING, CPA, CIA, CFE
CITY AUDITOR**

**INTERNAL CONTROL REVIEW
ACTIVITY REPORT
DECEMBER 31, 2004**

CAO 2900-0405-04

BACKGROUND

The City Auditor's Office has the responsibility to Evaluate, Enhance, Educate, and Enforce internal control issues that come to the Office's attention.

- **Evaluate** - The Office independently and objectively performs Internal Control Reviews to evaluate applicable internal controls through professional expertise and judgment.
- **Enhance** - After evaluation the Office makes recommendations to enhance the adequacy and effectiveness of existing controls and further recommends additional controls as appropriate.
- **Educate** - Through the Internal Control Review Memorandums to management and the periodic *Internal Control Review Activity Report*, the Office Educates management and others of appropriate internal controls.
- **Enforce** - Enforcement is limited to supplying data to management to help them enforce the policies and procedures of the City.

The results of the Internal Control Reviews are reported in two steps:

- An Internal Control Review Letter (Memorandum) is released to the appropriate levels of management and the Mayor and City Council. This assists in the correction of deficiencies and reports on the adequacy and effectiveness of existing controls.
- Semiannually, a summary report is made of all findings and recommendations and released in a formal *Internal Control Review Activity Report*.

This report recaps the memorandums issued since the last *Internal Control Review Activity Report* including, a list of all memorandums issued with a synopsis of the findings and recommendations. The recommendations are entered into the follow-up system for tracking purposes

**INTERNAL CONTROL REVIEW
ACTIVITY REPORT
DECEMBER 31, 2004
CAO 2900-0405-04
March 8, 2005**

OBJECTIVES

Our objectives in completing the *Internal Control Review Activity Report* are to:

- Review all activity for the period noted relative to internal control reviews;
- Document for tracking purposes findings and recommendations noted in Internal Control Memorandums; and
- Report to the public the results of activities of the City Auditor's Office.

The objectives of each of the Internal Control Reviews were to:

- Determine the appropriate internal controls related to each of the Reviews;
- Determine the reason(s) for any control failure;
- Recommend corrective action; and
- Report the results of our review.

SCOPE AND METHODOLOGY

Fieldwork performed during each of the Internal Control Reviews was performed in accordance with generally accepted governmental auditing standards. Procedures included:

- Observing operations.
- Interviewing personnel.
- Reviewing records, reports, and other applicable documentation.

ACTIVITY REPORT

From inception of the internal control review process until December 31, 2004, fifteen incidents were identified for review. A report, referral, or memorandum has been issued on five incidents. Ten incidents remain in process at various stages of completion.

INTERNAL CONTROL MEMORANDUMS ISSUED

Mail Room Change Fund Theft

Background

The City of Las Vegas has a City Mailroom that is operated by the Information Technologies Department. In the mailroom, a change fund was established to purchase stamps for resale to City employees. During a surprise cash count of the mailroom change fund on February 5, 2004, the City Treasurer's Office noted a shortage of \$470. The City Marshal's Office was called to investigate this loss. A mailroom employee / clerk substituted an IOU in the amount of \$170 and a personal, undated check in the amount of \$300 to conceal the \$470 shortage. The subject employee involved was placed on administrative leave with pay pending a disciplinary hearing. Before the hearing was convened, the employee was arrested,

**INTERNAL CONTROL REVIEW
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placed in custody, and subsequently released. The employee resigned in lieu of termination on February 27, 2004. The subject employee is not eligible for rehire. The employee made restitution of \$470.

Findings / Conclusions

Existing policies and procedures for handling cash were not followed as noted below.

Written Procedures – The Information Technologies Department did not have written procedures regarding cash handling in the mailroom.

Segregations of duties or a second person as a verifier – A second person was not appointed to verify reconciliation.

Limited access – Access to the funds was not limited to only one employee. The assigned custodian did not maintain control of the change fund. The change fund was assigned to one employee per the City Treasurer's Office. In breach of this policy the designated custodian assigned the change fund on a weekly basis between himself and another employee. This created an opportunity for the non-custodian to manipulate the change fund and avoid detection.

Unannounced Inspections – The department director or a designee was not performing and documenting unannounced inspections of the mailroom's cash handling activities as required by city policy.

Recommendations

The following recommendations are made:

- 1.1 Information Technologies management should improve existing internal controls in the City's mailroom by establishing and documenting appropriate procedures.
- 1.2. Information Technologies management should review the needs for cash in the City Mailroom to determine if the fund can be reduced, thereby reducing the amount of funds exposed to theft.
- 1.3. Information Technologies management should evaluate and document other methods of purchasing stamps (e.g. P-card purchases).
- 1.4. Information Technologies management should evaluate and document eliminating the stamp window and replacing it with a self service station. The service hours currently utilized should be compared to the available hours of a self service station. Additionally, the cost for employees to operate the stamp window should be compared to the cost of establishing a self service station.

ICR 004 – West Community Center - Cash Handling

Background

On July 22, 2004 an employee in the City Treasurer Office notified the City Auditor's Office that a deposit of \$80 from the West Community Center had not reconciled with the bank after six days. The receipts were reflected in the CLASS system on July 10, 2004. Two emails were sent to the supervisor of West Community Center advising her of the discrepancy. On July 20, 2004, the supervisor replied that, "*she would make sure its taken care of before the end of the day.*" The subject employee made the deposit for the \$80 in person that day at the bank.

Findings / Conclusions

Existing policies and procedures for handling cash were not followed as noted below.

Written Procedures – The West Community Center did not follow written procedures regarding cash handling.

Deposits – The West Community Center did not make deposits on a timely basis.

Forms – The West Community Center did not record the cash collected on the proper form.

Recommendations

Management should improve existing internal controls by establishing and documenting appropriate procedures. The procedure should address the following elements:

- 2.1. Qualified and Trained Personnel – The personnel should be qualified and adequately trained to perform the cash handling functions. Written standards should be established for requirements for qualification and training associated with the handling of cash.
- 2.2. The supervisor should query CLASS on a daily basis and cross check the deposits to ensure deposits were made in a timely manner and that proper forms were completed.

ICR 005 – Field Operations - Procurement Card (P-Card) Misuse

Background

On September 13, 2003 and January 9, 2004, a former supervisory employee (Department of Field Operations) used the City of Las Vegas P-Card to purchase cement from a Cement Contractor for a personal projects in the amount of \$450 and

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\$700. Both of these projects were for City of Las Vegas employees. The former supervisory employee operated his own private business. The vendor contacted Finance & Business Services because the delivery addresses were outside the City of Las Vegas. Finance & Business Services investigated these irregularities. The former supervisory employee also used the City's P-Card for personal charges at a local restaurant on February 15, 20, 28 and 28, 2004 for a total amount of \$553.96, which included cash and cash transaction fees. The former supervisory employee attempted to repay the City of Las Vegas for the restaurant charges, the check was returned for insufficient funds. Finance & Business Services was able to collect the known false charges of \$1,703.96 from the former supervisory employees last payroll check. Several items charged and reflected on the P-Card transaction report did not specify what was purchased making the reconciliation process extremely difficult.

Findings / Conclusions

Existing policies and procedures for P-Card purchases were not followed as outlined in Procurement Card Program Policy FN605.1.

Purchases – Questioned purchases were not for City of Las Vegas business purposes.

Documentation – Documentation was inadequate to identify details of transactions.

Supervisory Review of Purchases – There were several items on the transaction details that were questionable, e.g. purchase of numerous cement related tools, palm pilots, and digital cameras. Active supervisory review should have identified inappropriate items.

Abuse/Violations – Several transactions were made for inappropriate items including: concrete, palm pilots and cash advances.

Training – Inadequate training of reviewers.

Recommendations

The following recommendations are made:

- 3.1. Management should ensure cardholders are aware of the P-Card policy and procedures.
- 3.2. Reviewers need to adequately review and follow-up on questioned.
- 3.3. Reviewers should require detailed receipts before authorizing P-Card payments.
- 3.4. Reviewers should review P-Card purchases on a regular basis.

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3.5. Reviewers/approvers and departmental management should thoroughly understand the P-Card policy and procedure to be effective in safeguarding the City's resources.

REPORTS ISSUED

INVESTIGATIVE REPORT – Petty Cash Theft – Planning and Development Department, CAO 2300-0304-03, dated February 27, 2004

The findings and recommendations identified in this report have been tracked for follow-up purposes since the release of the original report. No additional follow-up will be tracked in the Activity Report.

CRIMINAL REFFERAL

Department of Leisure Services Administration Accounting Unit Irregularities

Background

Approximately \$103,000 in Leisure Services deposits from the period August 2000 through December 2001 were found to be missing. Approximately \$19,000 of these deposits were traced to an ex-employee from the Leisure Services Accounting Unit. The City Marshal's Office investigated this incident and referred this incident for prosecution.

Findings / Conclusions

The procedures in place during the period the thefts took place were found to be deficient. They lacked adequate preventative internal controls to give reasonable assurance that a theft could be prevented. Additionally, they did not include adequate detective controls to give reasonable assurance that if committed the theft would be discovered.

Subsequent to this incident all procedures have been revised and controls now exist to mitigate the identified deficiencies.

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**MANAGEMENT RESPONSES
TO
INTERNAL CONTROL REVIEW – ACTIVITY REPORT**

1. MAIL ROOM CHANGE FUND THEFT

Recommendation 1: (INFORMATION TECHNOLOGIES)

Information Technologies management should improve existing internal controls in the City's mailroom by establishing and documenting appropriate procedures.

Management Response:

The following procedures were implemented as a result of this recommendation.

- Only one staff member will be operating the Stamp Window. During short absences, (one day or partial day) the Stamp Window will be closed. For extended absences, (more than one day) the stamp window fund will be audited by the Graphic Operations Supervisor and the fund assigned to another staff member with an audit before the fund is returned to Stamp Window Operator.
- The Stamp Window Operator will provide a weekly fund report to the Graphic Operations Supervisor. This report will include; deposit receipt copies, a copy of the handwritten descending register log, copies of the daily cash register tapes, copies of the daily cash box reconciliation sheet and a copy of the postage machine account audit trail report for account 90.
- The Stamp Window Operator will complete a City of Las Vegas Fund Custodian Transfer form, adhere to City cash handling standards and attend City cash handling training.

Expected Date of Completion:

May 24, 2004

Recommendation 2: (INFORMATION TECHNOLOGIES)

Information Technologies management should review the needs for cash in the City Mailroom to determine if the fund can be reduced, thereby reducing the amount of funds exposed to theft.

Management Response:

The requirement for cash to operate the Stamp Window in the City Mailroom was evaluated along with the City Treasurer. The outcome of that evaluation was the necessity to have cash for the operation and that \$1500.000 was the appropriate amount.

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Expected Date of Completion:

May 24, 2004

Recommendation 3: (INFORMATION TECHNOLOGIES)

Information Technologies management should evaluate and document other methods of purchasing stamps (e.g. P-card purchases).

Management Response:

The use of a P-card to purchase stamps would not eliminate the need to handle cash since cash is the only method of payment for the stamps. Cash would still need to be deposited with the City Treasurer to reconcile with the P-card account purchases.

Expected Date of Completion:

May 24, 2004

Recommendation 4: (INFORMATION TECHNOLOGIES)

Information Technologies management should evaluate and document eliminating the stamp window and replacing it with a self service station. The service hours currently utilized should be compared to the available hours of a self service station. Additionally, the cost for employees to operate the stamp window should be compared to the cost of establishing a self service station.

Management Response:

The United States Postal Service was contacted in reference to placement of a self service station. They responded that they had a very limited supply of the self service stations with a large waiting list and that deployment was based on estimated usage. We could place our name on the list, but based on our usage, we would have no real expectation of obtaining one of the USPS self service stations. Other options to dispense stamps only are available but do not mitigate the need for handling of packages.

Expected Date of Completion:

May 24, 2004

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2. ICR 004 – WEST COMMUNITY CENTER – CASH HANDLING

Recommendation 1: (LEISURE SERVICES)

Qualified and Trained Personnel – The personnel should be qualified and adequately trained to perform the cash handling functions. Written standards should be established for requirements for qualification and training associated with the handling of cash.

Management Response:

When CLASS was deployed at the West CS, all personnel received training and cash handling procedures were established; however, this was an isolated case where the employee had computer difficulties with the CLASS process and failed to inform her supervisor in a timely manner. She was given a verbal reprimand and put on notice that any other actions of this nature would result in further disciplinary measures against her. Management has also put into action to have all personnel review and initial the procedure in order to refresh and reiterate proper cash handling.

Expected Date of Completion:

May 1, 2005

Recommendation 2: (LEISURE SERVICES)

The supervisor should query CLASS on a daily basis and cross check the deposits to ensure deposits were made in a timely manner and that proper forms were completed.

Management Response:

The Coordinator now closely monitors the centers deposits on a daily basis, and encourages staff to be more diligent in the cash handling processes.

Expected Date of Completion:

Completed

3. ICR 005 – FIELD OPEATIONS – PROCUREMENT CARD (P-CARD) MISUSE

Recommendation 1: (FIELD OPERATIONS)

Management should ensure cardholders are aware of the P-Card policy and procedures.

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Management Response:

Copies of the Procurement Policy and Procedure were provided to staff along with a memo reminding staff to adequately document procurements and to follow governing procedures. In addition, Division Manager has reminded staff several times of the Procurement Policy and Procedure.

Expected Date of Completion:

10/18/04

Recommendation 2: (FIELD OPERATIONS)

Reviewers need to adequately review and follow-up on questioned.

Management Response:

The Division needs to do a better job documenting the details of our procurement transactions, both for historical documentation and to facilitate the payment process. Staff has been directed to record on all receipts: name of the person receiving the product (written and signature), Division name, and description and location of product utilization. These additional requirements have allowed for a more thorough review of procurements made by this Division.

Expected Date of Completion:

10/18/04

Recommendation 3: (FIELD OPERATIONS)

Reviewers should require detailed receipts before authorizing P-Card payments.

Management Response:

Staff was directed to always obtain a receipt, and make a notation on all receipts describing what was bought and the purpose (memo dated 10/18/04). In addition, the memo stated that reconciliation of procurements would not be processed unless ample justification and description is provided.

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Expected Date of Completion:

10/18/04

Recommendation 4: (FIELD OPERATIONS)

Reviewers should review P-Card purchases on a regular basis.

Management Response:

Purchases are reviewed on a weekly basis. Only those items where receipts have been submitted are reconciled.

Expected Date of Completion:

10/18/04

Recommendation 5: (FIELD OPERATIONS)

Reviewers/approvers and departmental management should thoroughly understand the P-Card policy and procedure to be effective in safeguarding the City's resources.

Management Response:

The Policy and Procedure has been reviewed by management and implemented an improvement in our process to assist in safeguarding the City's resources.

Expected Date of Completion:

10/18/04

CITY AUDITOR'S OFFICE



AUDIT OF DURANGO HILLS GOLF COURSE MANAGEMENT CONTRACT

Report No. CAO 1701-0405-05

April 14, 2005

**RADFORD K. SNELDING, CPA, CIA, CFE
CITY AUDITOR**

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AUDIT OF DURANGO HILLS GOLF COURSE MANAGEMENT CONTRACT REPORT CAO 1701-0405-05

BACKGROUND

Durango Hills Golf Course (DHGC) is an 18-hole executive style golf course. It is located on land owned by the Bureau of Land Management (BLM). The City of Las Vegas (City) constructed the golf course in 2002 and contracted a golf management company (Contractor) to operate it since then.

The Contractor is responsible for staffing, maintenance, and operating the golf course, including the pro-shop and the restaurant. In return for the operation and management services, the Contractor receives a monthly management fee and reimbursement for the golf course's operating and capital expenditures. All revenues related to DHGC belong to the City. The City's Field Operations Department, Parks Maintenance Manager (Project Manager) is responsible for the coordination of contract performance between the City and the Contractor.



OBJECTIVES

The objectives of our audit were to determine whether:

- Adequate controls are in place to ensure the Contractor's compliance with the contract; and
- DHGC is financially viable.

SCOPE AND METHODOLOGY

We performed the audit in accordance with generally accepted governmental auditing standards. Our audit procedures included:

- Reviewing the management contract;
- Interviewing pertinent personnel;
- Reviewing financial and operational reports;
- Analyzing financial and operational data.

During the audit, we also engaged a golf management consultant to assist us in observing the golf course operations and reviewing the audit issues.



FINDINGS AND RECOMMENDATIONS

The City Auditor's Office appreciates the courtesy and cooperation extended to us by employees of the Finance and Field Operations Departments and the Contractor during the audit. Our audit identified issues management should address to improve contract oversight over the golf course operation. These issues are summarized in the following sections. While other issues were identified and discussed with management, they were deemed less significant for reporting purposes.

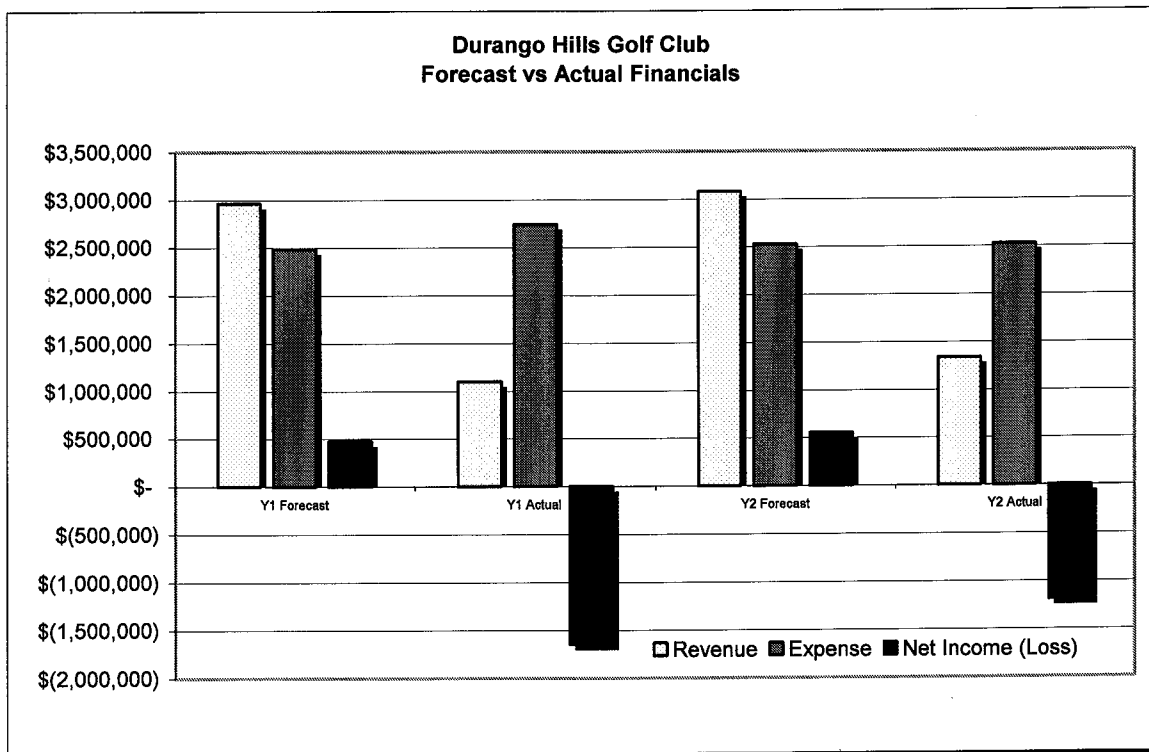
1. FINANCIAL PERFORMANCE

Criteria:

- As an enterprise fund, the golf course operation should generate sufficient revenues to cover its expenditures.

Condition:

- The City issued \$12 million general obligation golf course bonds in November 2001 to finance the construction of DHGC, which opened to the public in November 2002.
- According to the bond document, no revenues from general ad valorem (property) taxes would be necessary to service the annual debt of approximately \$1.05 million over 20 years.
- The pro-forma financial statement projected over \$1 million of surplus after paying all operating and debt servicing expenses during the golf course's first two years of operation.
- Our review indicated that DHGC's revenues were significantly lower than forecasted. In 2003 and 2004, the golf course lost a total of \$2.84 million, including \$2.05 million for debt servicing.



- In January 2005, the City sold a piece of land adjacent to the golf course for approximately \$2.9 million. The City purchased the 4.58-acres land in 1997 in conjunction with the development of the golf course. The proceeds from the sale of that property were designated to help defray DHGC's deficits during its early years of operation.

Cause:

- DHGC's revenues are substantially below the forecasted levels.

Effect:

- DHGC's financial deficits are subsidized by the City.

Recommendation:

1. The City Manager's Office should develop a long-term plan to finance DHGC's financial deficits.
2. The Project Manager should request the Contractor to develop a comprehensive business plan, including marketing efforts, cost containment strategies, and strategic fee structures to ensure DHGC's financial viability.
3. The Project Manager should closely monitor DHGC's financial performance and periodically report the results to the City Manager's Office.

2. CONTRACT OVERSIGHT

Criteria:

- Adequate oversight is essential to ensure compliance with the terms and conditions of a contract.

Condition:

- In February 2002, the City contracted a golf management company to operate and manage DHGC, which was under construction.
- In September 2002, two months before the golf course was open, the City accepted an assignment for another golf management company to replace the first company as the Contractor.
- The contract terms essentially remain the same, with only a few minor modifications to reflect the change.

- According to the management contract, the Contractor shall, among other requirements:
 - Engage and employ all personnel necessary to manage, operate and maintain the golf course including managerial, maintenance, professional shop and restaurant services;
 - Deposit daily revenues from the facility to the City's bank account;
 - Submit monthly invoices for allowable costs; and
 - Submit monthly status reports as specified in the contract.
- In addition to the management fee, the Contractor is eligible for a performance award fee based on 10% of the facility's net revenue as defined in the contract.
- The City's Park Maintenance Manager was assigned to be the Project Manager to oversee and coordinate the contract performance.
- Our review indicated that there is a lack of quantifiable goals for performance measurements.
- Over the past two years, the Project Manager's involvement with DHGC has been limited to the following activities:
 - Reviews annual budgets;
 - Approves fee changes and other operational requests;
 - Interacts informally with management and staff;
 - Plays a round of golf once or twice per month and observes the golf course condition and operations during each visit.
- The City's Finance Department has been involved in the following aspects of DHGC:
 - Reviews annual budgets;
 - Reviews and reconciles daily bank deposits; and
 - Processes the Contractor's monthly invoices.
- Our review indicated that the City's current contract oversight for DHGC is inadequate to mitigate the City's financial risks and to ensure contract compliance.

Cause:

- Overall contract oversight responsibilities have not been clearly defined and assigned.

Effect:

- Potential contract violations
- Potential financial risks to the City

Recommendation:

1. The City Manager's Office should re-evaluate the City's contract oversight responsibilities of DHGC and assign appropriate staff to monitor the contract. In evaluating contract oversight responsibilities, the following should be considered:
 - a. Operational and financial risks
 - b. Control activities to mitigate the risks identified
 - c. Proper segregation of incompatible duties
 - d. Quantifiable key performance indicators for significant areas of the operation
 - e. Accurate, reliable and timely information to report on performance
 - f. Safeguarding of assets
 - g. Formal policies and procedures
 - h. Compliance with laws, regulations, and contract terms
 - i. Operational effectiveness and efficiency
 - j. Customer satisfaction and feedback

3. MONTHLY REPORTS

Criteria:

- According to Section C-10 of the management contract, the Contractor shall submit a monthly status report to the City by the fifteenth of every month for the previous month. The report shall include nine specific categories of information and any other information relating to the operation of the golf course as requested by the Project Manager.

Condition:

- The Contractor submitted monthly invoices to the City's Finance Department for its monthly management fees and reimbursements of expenditures.
- Along with the monthly invoices, the following DHGC financial statements are submitted to the City:
 - Balance sheet;
 - Income statements (summary and by department);
 - Statement of cash flows; and
 - Daily revenue report.

- Our review of the monthly status reports indicated that the Contractor had not submitted the following monthly information to the City as required by the contract:
 - Copy of any necessary sales tax report;
 - Staff vacancies, including recruitment efforts and projected date of filling vacancies;
 - Maintenance conditions report, including a list of activities accomplished, problems encountered, and projected resolution of pending problems;
 - Approved capital improvements completed, in progress, and planned;
 - Cost of sales inventory report reflecting beginning balance, acquisitions, sales and an ending balance;
 - Discussion of marketing or promotional efforts undertaken; and
 - Summary of consumer complaints and their resolution.

Cause:

- Contractor was unaware of the specific monthly reporting requirements.
- Some of the monthly information had been communicated verbally to the Project Manager.

Effect:

- Contract violation.
- Lack of operational information to monitor DHGC's operations.

Recommendation:

1. The Project Manager should establish adequate controls to ensure that DHGC management is in compliance with the monthly reporting requirements and the golf course's operations are properly monitored.

4. PERSONNEL

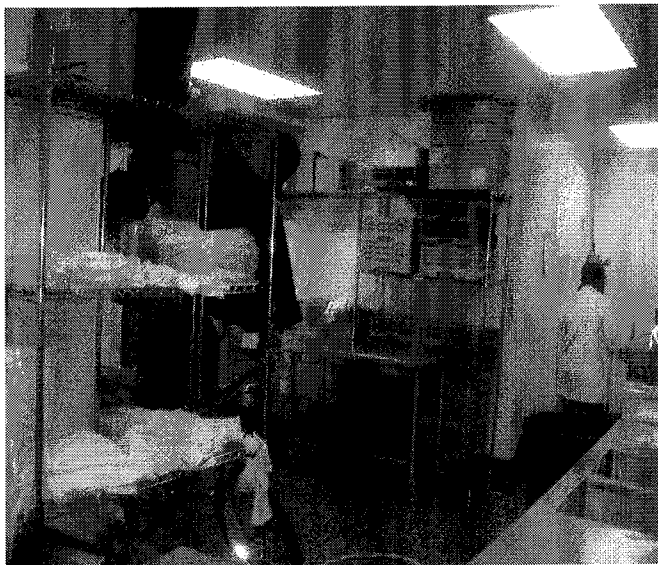
Criteria:

- Adequate controls should be in place to manage the golf course personnel to ensure operational efficiency.

Condition:

- DHGC employs a total of 38 employees: 10 for maintenance, 11 for food and beverages, and 17 for pro-shop and course operations.
- Besides three employees (general manager, superintendent, and accountant) who are paid a monthly salary, all other employees are paid hourly wages.
- Since the opening of the golf course in November 2002, the staff turnover ratio has been over 100% per year. Among the eighty employees who have left were one superintendent and two accountants.
- The City Marshal's Office has been involved in investigating several theft incidents at the golf course.
- Our review indicated the following weaknesses:

- DHGC's current policy and procedures manual does not cover some personnel and operational areas (e.g. nepotism, maintenance standards);
- Not all cash handling employees are subject to background checks before hiring;
- Not all food and beverage servers are required to obtain a sheriff card;
- While the maintenance employees use a time clock to record their work hours, some other employees pencil in their daily work hours on the biweekly time cards, which could be subject to manipulation;



- Some employees were observed smoking, watching TV, or reading books in front of customers; and
- Employees are not cross-trained to respond to customer's inquiries (e.g. banquet, tournament information).

Cause:

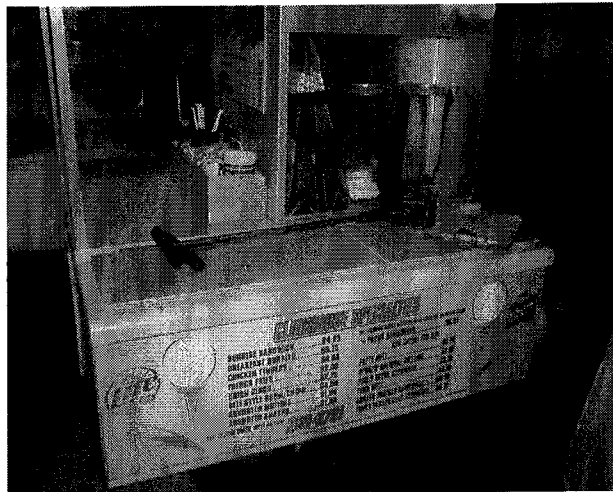
- DHGC management has not established comprehensive and formal policy and procedures for the golf course personnel.

Effect:

- Higher risk of employee fraud
- Poor customer services
- Inconsistencies in performance of duties

Recommendation:

1. The Project Manager should direct DHGC management to develop a formal and comprehensive policy and procedures manual including the following:
 - a. All cash-handling employees should be subject to background check before hiring.
 - b. All food and beverage servers should obtain a sheriff card before hiring.
 - c. All hourly employees should use a time clock to record their daily work hours.



5. SALES TAX COLLECTION AND REMITTANCE

Criteria:

- Unless exempted, all business entities in Nevada are required to collect sales tax for tangible properties and remit the taxes to the Department of Taxation. Intangible items are not subject to sales tax.

Condition:

- Prior to June 2004, DHGC calculated the monthly sales tax remittance amounts based on the golf course's total revenues including green fees and rentals, which are intangible items.
- We estimate that over the 19-month period between November 2002 and May 2004, DHGC overpaid the Department of Taxation a total of approximately \$100,000 due to payments on intangible items.
- Since June 2004, after being advised by the Department of Taxation, DHGC has been remitting sales taxes based only on revenues from the sales of merchandise, food and beverage, which represent approximately 18% of the golf course's total revenues.
- As DHGC did not add sales tax on green fees and rentals, the golfers were not over charged. However, DHGC mistakenly remitted 7.5% of the golf course's non-taxable revenues to the Department of Taxation.
- Our review indicated that neither DHGC management nor the City had taken actions to request refund for the overpayments.

Cause:

- DHGC's management incorrectly calculated the sales tax remittance amounts.
- The Contractor has not adequately monitored DHGC's financial affairs.
- The Project Manager has not adequately monitored DHGC's financial affairs.

Effect:

- Financial losses to the City.

Recommendation:

1. The Project Manager should request that the Contractor obtain a refund of the sales tax overpayments.
2. If the Contractor fails to obtain a refund from the Department of Taxation, the Project Manager should require the Contractor to reimburse the City for the sales tax overpayments.

6. SALES TAX FOR PURCHASES

Criteria:

- The City is exempt from paying sales and use tax as well as federal excise tax. According to Section E-10 of the management contract, the Contractor is required to take advantage of these exemptions in its procurement activities on behalf of the City.

Condition:

- Our review indicates that DHGC has not been taking advantage of the City's tax exemptions in its procurement activities
- Since 2002, DHGC has purchased more than \$500,000 worth of various equipment, furniture, and machinery.
- We estimate that the City has paid over \$30,000 of sales or use tax related to these purchases.
- Furthermore, our review found that DHGC has paid at least \$10,000 of sales and excise tax per year through its purchases of operating items including chemicals, gasoline, tools, and supplies.
- Since golf merchandise and food and beverage are purchased for resale, DHGC does not pay sales tax on these items. However, the customers are charged sales tax for their purchases of these tangible items.
- If the golf course had not out-sourced to a private business, the City will not charge sales tax for merchandise, food and beverage, making them more affordable to the customers.

Cause:

- The Project Manager did not monitor and evaluate the effect of DHGC's current practice of paying sales, use, and excise taxes.

Effect:

- Higher operating costs if DHGC does not take advantage of the City's tax-exempt status.

Recommendation:

1. The Project Manager should consult with the City Attorney's Office to determine whether DHGC can take advantage of the City's tax exemption status. If DHGC is unable to take advantage of the City's tax exemption status, the Project Manager should evaluate the tax implications of outsourcing the golf course operation and consider other possible alternatives to minimize DHGC's operating costs.

7. PROPERTY TAX

Criteria:

- As a private business, a golf course management company is required to pay property tax.
- As a local government, the City is exempt from paying property tax.

Condition:

- When the City issued the \$12 million golf bond in 2002, City management did not anticipate that the DHGC would be subject to property taxes since the golf course was built and owned by the City.
- However, by contracting a private business to manage DHGC, the City may be unable to take advantage of its tax exemption status at the golf course.
- In 2004, DHGC was billed for over \$100,000 of property taxes based on approximately \$3 million in assessed value of the Contractor's possessory interest at the golf course.
- At the advice of the City Attorney's Office, the City's Finance Director made the tax payments under protest on behalf of DHGC.

Cause:

- The City Attorney's Office had not made final resolution as to whether DHGC should be exempt from property tax.

Effect:

- If the DHGC fails to be exempt from property tax, its annual operating costs will be at least \$100,000 more than expected.

Recommendation:

1. The Project Manager should seek formal resolution from the City Attorney's Office as to whether the current outsourcing arrangement for DHGC qualifies for tax exemption.
2. If it is determined that DHGC's current contracting arrangement does not qualify for tax exemption, the Project Manager should seek guidance from the City Manager's Office to determine alternative arrangements to minimize DHGC's operating costs.

8. PRO-SHOP OPERATION

Criteria:

- According to Section C-2 (f) of the management contract, the Contractor shall post all prices charged for green fees, cart rental, etc. at the location where such fees are normally paid.
- Pro-shop revenues should be properly accounted for.

Condition:

- DHGC's major sources of revenues are from green fees and cart rentals.
- Golf professionals who work in the pro-shop are responsible for multiple tasks including: booking tee-times, processing green fees and rentals, issuing keys for golf carts, and acting as starters.
- Charges for green fees and rentals vary at DHGC based on the following factors:
 - Resident vs. Non-resident;
 - Weekday vs. Weekend;
 - 18-Hole vs. 9-Hole;
 - Age group (Senior vs. Adult vs. Junior);
 - Time of Day (Early Bird vs. Twilight); and
 - Electric Cart vs. Pull Cart.
- During the audit, we observed the following control weaknesses in processing golfers' payments in the pro-shop:
 - No price list is displayed in the pro-shop;
 - Pro-shop attendants do not always check whether the golfers are eligible for the lower fees for residents, seniors, and juniors;
 - Golfers do not always obtain their payment receipts as they are not required to be checked by either the golf cart attendants or the course marshals; and
 - Surveillance camera in the pro-shop is not positioned at the cashier drawer to monitor and record transactions.
- Our review indicated that the tee time records do not always match with the payment transactions (e.g. booked 18-hole, paid 9-hole.) Furthermore, some payment transactions are voided or cancelled without documenting the reasons for the changes and obtaining supervisory approval.

Cause:

- Lack of proper controls to ensure all revenues are collected and recorded by the pro-shop attendants.

Effect:

- Potential loss of revenues.
- Potential fraud.

Recommendation:

1. The Project Manager should direct DHGC management to implement the following:
 - a. A fee schedule for rental and green fees should be posted in a conspicuous area of the pro-shop.
 - b. Pro-shop attendants should verify golfers' ID (e.g. address, age) before charging them for lower fees (i.e. seniors, juniors, Clark County residents).
 - c. DHGC should establish adequate controls to ensure golfers are issued payment receipts and notify golfers that their receipts are subject to verification by the cart attendants or the course marshals.
 - d. The positioning of the surveillance cameras and their use should be evaluated.
 - e. Reasons for all voided or cancelled transactions should be properly recorded and approved.

9. PRO-SHOP MERCHANDISE

Criteria:

- Adequate controls must be established to ensure pro-shop merchandise is properly accounted for.

Condition:

- DHGC's pro-shop generates approximately \$68,000 annually from sales of a variety of merchandise including golf apparel, balls, clubs, and footwear.
- The pro-shop's average inventory value is \$22,000 and the average merchandise sale per round of golf is approximately \$1.60.



- The golf professionals who work in the pro-shop are responsible for handling sales transactions.
- Since May 2004, the General Manager has been responsible for the following duties, some of which are incompatible for proper internal control purposes:
 - Selecting suppliers and products;
 - Placing orders;
 - Receiving shipments;
 - Keeping excessive inventory in his office;
 - Conducting monthly inventory counts; and
 - Reconciling and adjusting inventory records.
- Some of the monthly inventory count reports are either incomplete or unavailable.
- Our review indicated that \$5,664 of inventory was unaccounted for during the 22-month period between February 2003 and November 2004.

Cause:

- A lack of adequate controls over the pro-shop merchandise.

Effect:

- Potential theft of pro-shop merchandise.
- Higher than expected cost of sales for pro-shop merchandise.

Recommendation:

1. The Project Manager should:
 - a. Direct DHGC management to establish adequate controls to safeguard and properly account for the pro-shop merchandise.
 - b. Review the monthly inventory count results and obtain satisfactory explanations for inventory discrepancies.
 - c. Monitor the pro-shop's merchandise sales and costs of sales to ensure pre-determined financial targets are met.

10. RESTAURANT OPERATION

Criteria:

- DHGC's restaurant should be operated in a cost efficient manner and maximize its revenues to defray the operating costs of the golf course.

Condition:

- DHGC's restaurant and bar offers in-house dining, on-course beverage cart, and banquet services to its customers.
- The restaurant is staffed with eleven employees including three cooks and eight food servers/beverage cart persons.
- Two of the restaurant employees are a husband and wife team. Husband is a cook and wife is a food server.
- Over the past two years, revenues from the sales of food and beverage amounted to approximately \$192,000 per year, an equivalent of \$4.50 per round of golf.
- Our review of the available monthly inventory count reports indicated that food spoilage or waste totaled approximately \$25,000 during a sixteen-month period from August 2003 to November 2004.

Cause:

- The restaurant operation has not been closely monitored.

Effect:

- Financial losses to the City.

Recommendation:

1. The Project Manager should more closely monitor the financial performance of the restaurant operation and periodically report the results to the City Manager's Office.
2. The Project Manager should evaluate whether it is acceptable for a husband and wife team to work in the restaurant.

11. MAINTENANCE

Criteria:

Adequate controls should be in place to ensure DHGC's maintenance services are performed in a cost efficient manner and in accordance with the management contract.

Condition:

- DHGC's maintenance department is staffed with ten employees including: one superintendent, one mechanic, one irrigation specialist, and seven maintenance staff. Additional part-time employees are hired during the summer.



- The former superintendent was dismissed in July 2004 for using DHGC's maintenance employees and equipment to work on his sideline maintenance business during regular working hours.



- The current superintendent who was hired in September 2004 was not instructed to maintain the golf course in accordance with the maintenance standards as stipulated in the management contract. Over the past six months, he has been maintaining the golf course based on the standards he followed at another golf course.
- The value of DHGC's maintenance equipment is approximately \$487,000. Most of the equipment was purchased by the City in 2002 and has been used for over two years.

- Our review found that the repair and maintenance records and fuel consumptions records for the maintenance equipment have not been adequately maintained as required by Section C-3 of the management contract.
- Furthermore, DHGC has not established a formal safety program as required by the management contract.

Cause:

- The golf course superintendent was not aware of the maintenance requirements of the management contract.

Effect:

- Contract violations.

Recommendation:

1. The Project Manager should direct DHGC management to establish controls to ensure:
 - a. The golf course is maintained in accordance with the contractual maintenance standards.
 - b. Complete and accurate repair and maintenance records are maintained for all maintenance equipment.
 - c. Complete and accurate fuel consumption records are maintained.
 - d. Implementation of a formal safety program.

12. COMPLIMENTARY USE OF GOLF COURSE FACILITY

Criteria:

- Section C-4 (c) (vi) of the management contract stipulates that the Contractor is responsible for collecting, accounting for, depositing and reporting to the City all revenue generated from operations at or connected with operation of the facility.
- Section C-4 (e) of the management contract stipulates that the Contractor shall not, under any circumstance, offer discounts or complimentary use of city property or assets without the written approval of the Project Manager.

Condition:

- Our review indicates that DHGC management allows the following complimentary use of the golf course:
 - If the course is not busy, an employee can bring a friend to play for free;
 - Golf professionals who work at the pro-shop are allowed to teach private golf lessons without compensating DHGC;
 - Superintendents from other golf courses are allowed to play free at DHGC; and
 - PGA professionals can play for free.
- DHGC management has not obtained written approval from the Project Manager for the complimentary use of the golf course.

Cause:

- DHGC management failed to comply with the contract requirements regarding discounts or complimentary use of city property or assets.

Effect:

- Contract violations.
- Loss of revenues.

Recommendation:

1. The Project Manager should notify DHGC management of contract violations regarding complimentary use of golf course facility.
2. The Project Manager should evaluate the current complimentary use practice and establish formal complimentary use guidelines for DHGC to follow. (The City should consider requiring golf instructors to pay a monthly fee or a percentage of instruction revenues.)

13. IMPREST FUND

Criteria:

- According to Section B-6 of the management contract, DHGC may employ the use of an imprest fund (\$2,000) to cover small dollar purchases under \$500 and purchases of items which must be paid by C.O.D. (e.g. alcohol and perishable foods).

Condition:

- Over the past two years, the golf course General Manager issued a total of 58 checks for approximately \$19,000 from the imprest fund account. The average amount for each check was \$326. Receipts are retained for the expenses.
- Our review of the imprest check register indicated that:
 - 9 of the 58 checks were for amounts in excess of \$500, including a final payroll check in the amount of \$3,370.37 to an employee;
 - 10 checks were issued to a company for embroidery services between January and September of 2004; and
 - 13 checks were issued to individuals - most of them were employees of the golf course.

Cause:

- DGHC management was not familiar with the management contract and did not comply with the stipulated imprest fund restrictions.
- Inadequate monitoring of DHGC's operations to ensure contract compliance.

Effect:

- Contract violations
- Potential misuse of imprest fund.

Recommendation:

1. The Project Manager should periodically review the check register of the imprest fund to ensure all the purchases are appropriate and in compliance with the contract.

14. REDEMPTION CERTIFICATE

Criteria:

- Use of redemption certificates should be properly authorized and adequately controls.

Condition:

- DHGC has an advertising arrangement with a local radio company to promote the golf course during a radio-shopping program. The promoter sells redemption certificates to the listeners at a discount and retains the proceeds.
- According to the terms of the redemption certificates, each \$70 value certificate is good towards a round of golf for two players (carts and green fees included) and is valid after 10 am, 7 days a week within the specified 3-month period.
- Once redeemed, the certificates are bundled up and stored in the accounting office.
- During the month of November 2004, a total of 25 certificates were accepted. Our review of these redeemed certificates found the following:
 - 18 redemption certificates (72%) were processed by three employees and had not been properly marked to prevent the certificates from being reused;
 - Two certificates were used for tee times before 10 a.m.;
 - One person used four redemption certificates within a period of 9 days; and
 - 10 certificates (40%) were not redeemed by the bearers of the redemption certificates.
- DHGC management did not include this advertising program in its marketing plan and did not obtain prior approval from the City to participate in the program.

Cause:

- DHGC did not formally establish objectives and controls for the redemption certificate program.
- Lack of oversight of redemption certificates.

Effect:

- Potential loss of revenues.
- Potential for reuse of redeemed certificates.

Recommendation:

1. The Project Manager should evaluate the redemption certificate program to determine whether it is beneficial to the golf course. If so, the Project Manager should direct DHGC management to formally document the objectives and establish proper controls for the program.

15. LOST AND FOUND

Criteria:

- Adequate controls should be in place to account for all lost and found items.

Condition:

- If personal belongings left behind by the golfers are found, they are brought into the pro-shop.
- The lost and found items are kept in the pro-shop for one week to be claimed by their owners.
- After one week, the unclaimed items are transferred to the cart barn under the custody of the cart attendants.
- During the audit, we observed dozens of unclaimed items including golf clubs and various personal belongings inside the cart barn.
- There is no inventory list documenting descriptions of each of the lost and found items, the dates they were found, and the owners of the items, if claimed.

Cause:

- Lack of policy and procedures to record lost and found items and their subsequent disposals.

Effect:

- Potential theft of lost and found items.

Recommendation:

1. The Project Manager should direct DHGC management to establish formal policy and procedures with regard to lost and found items found at the golf course.

MANAGEMENT RESPONSES

1. FINANCIAL PERFORMANCE

RECOMMENDATION 1

Management Plan of Action: The City will continue to seek ways to systematically reduce and ultimately eliminate the financial deficit as the golf course operations mature and grow.

Expected Date of Completion: Immediately with regards to initiating a long-term plan to reduce or eliminate the subsidy.

RECOMMENDATION 2

Management Plan of Action: City staff will request the Contractor to develop a comprehensive business plan.

Expected Date of Completion: Three months.

RECOMMENDATION 3

Management Plan of Action: Some information (i.e. revenue and rounds of golf) has been forthcoming on a regular basis. In concurrence with this recommendation, City staff will expand on these reporting and monitoring responsibilities to include other finance and performance measures.

Expected Date of Completion: Three months.

2. CONTRACT OVERSIGHT

RECOMMENDATION 1

Management Plan of Action: City management is evaluating the assignment of contract oversight responsibilities as recommended and will be making assignments as appropriate within the next 90 days.

3. MONTHLY REPORTS

RECOMMENDATION 1

Management Plan of Action: City staff will review and establish controls that will ensure compliance with monthly reporting and monitoring requirements.

Expected Date of Completion: June 30, 2005

4. PERSONNEL

RECOMMENDATION 1

Management Plan of Action: This direction will be issued June 1, 2005 to both the local DHGC management and the parent company, IRI. A formal comprehensive policy and procedures manual will be completed in the third quarter of FY 2006. This will include reference to requirements relative to food and beverage servers. The requirements for everyone to punch a clock will be in place by July 1, 2005.

5. SALES TAXES COLLECTION AND REMITTANCE

RECOMMENDATION 1

Management Plan of Action: The Project Manager will formally make the request for a refund of the sales tax over payment.

Expected Date of Completion: Request made of the Contractor to refund taxes paid will be complete by June 30, 2005.

RECOMMENDATION 2

Management Plan of Action: The City will provide assistance to the Contractor to obtain a refund of the sales tax. If such efforts are unproductive, the City will issue a claim against the Contractor as recommended.

Expected Date of Completion: As determined by interaction with State Department of Taxation

6. SALES TAXES FOR PURCHASES

RECOMMENDATION 1

Management Plan of Action: Given the procedure what has been in place, we take some exception to the findings in that the Project Manager did not see invoices which would have shown sales tax being paid. The Project Manager will meet with the City Attorney's Office and the Purchasing Division to determine how purchases at the DHGC should be made to take advantage of the City's tax exempt status and to minimize operating costs.

Expected Date of Completion: Second Quarter FY 2006.

7. PROPERTY TAX

RECOMMENDATION 1

Management Plan of Action: The Project Manager should certainly be involved, however, a directive for formal resolution from the City Attorney's Office would be more appropriately made from the City Manager's Office.

Expected Date of Completion: Time frame will be determined by the City Attorney's Office.

RECOMMENDATION 2

Management Plan of Action: See Recommendation #1. The Project Manager will be a part of the review and will take action as directed.

Expected Date of Completion: City Attorney's Office time frame.

8. PRO-SHOP OPERATION

RECOMMENDATION 1

Management Plan of Action: This will be made as a part of audit item #4 and will be completed by the Third Quarter of FY 2006. The issue of surveillance cameras will be discussed with Finance and Facilities Management for funding and proper placement.

Expected Date of Completion: See above.

9. PRO-SHOP MERCHANDISE

RECOMMENDATION 1

Management Plan of Action: (a) will be addressed as part of the policy and procedure manual. The other will be done as part of a monthly review that will be implemented in the First Quarter of FY 2006.

Expected Date of Completion: See above.

10. RESTAURANT OPERATION

RECOMMENDATION 1

Management Plan of Action: Monthly inspection of restaurant operations and reports will be made. A quarterly report will be made to the City Manager's Office.

Expected Date of Completion: Second Quarter of FY 2006.

RECOMMENDATION 2

Management Plan of Action: A decision as to the appropriateness of a husband and wife both working in the same area will be reviewed and a decision made by the First Quarter of 2006.

Expected Date of Completion: See Above

11. MAINTENANCE

RECOMMENDATION 1

Management Plan of Action: These recommendations will be included as a part of the policy and procedure manual that the contractor will be required to write. Until the completion of this document the Project Manager will ensure maintenance is done to acceptable standards.

Expected Date of Completion: Third Quarter of FY 2006.

12. COMPLIMENTARY USE OF GOLF COURSE FACILITY

RECOMMENDATION 1

Management Plan of Action: Will notify DHGC in writing.

Expected Date of Completion: Implementation will be by July 1, 2005.

RECOMMENDATION 2

Management Plan of Action: The Project Manager will draft a complimentary use policy to be part of the policy and procedure manual.

Expected Date of Completion: Third Quarter of FY 2006.

13. IMPREST FUND

RECOMMENDATION 1

Management Plan of Action: The Project Manager will consult with the Finance Department to make sure the imprest fund policy is clear. The imprest fund will be reviewed monthly.

Expected Date of Completion: To begin the First Quarter of FY 2006.

14. REDEMPTION CERTIFICATE

RECOMMENDATION 1

Management Plan of Action: The Project Manager will review this marketing component to determine its worth. A formal policy will be developed to address the proper recording and control of the certificates.

Expected Date of Completion: Will be a part of the formal policy and procedures; Third Quarter of FY 2006. Will begin research July 1, 2005 and proper recording controls will be in place the First Quarter of FY 2006.

15. LOST AND FOUND

RECOMMENDATION 1

Management Plan of Action: A formal policy will be in place by Second Quarter of FY 2006.

Expected Date of Completion: See Above.